

Allegiant Travel(ALGT)

\$176.05 (As of 01/02/20)

Price Target (6-12 Months): **\$187.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/01/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

Shares of Allegiant Travel have outperformed its industry in a year's time, mainly owing to robust passenger revenues. Solid demand for air travel is leading to higher passenger revenues. Evidently, in the first nine months of 2019, passenger revenues, which account for the bulk of the company's top line, increased 9.4%. Anticipating air-travel demand to remain strong, Allegiant issued bullish earnings per share projections for full-year 2019 and 2020. The company's initiatives to reward its shareholders through share buybacks and dividend payments are encouraging as well. Moderate fuel costs are an added positive. However, high expenses pertaining to salary and benefits are limiting bottom-line growth. Also, the massive capex might be a spoilsport. High-debt levels and capacity overexpansion add to the company's woes.

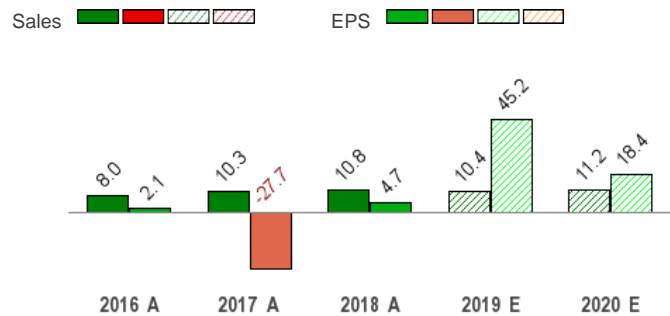
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$183.26 - \$101.98
20 Day Average Volume (sh)	108,451
Market Cap	\$2.9 B
YTD Price Change	1.2%
Beta	0.92
Dividend / Div Yld	\$2.80 / 1.6%
Industry	Transportation - Airline
Zacks Industry Rank	Top 28% (72 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	22.2%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	1.6%
Expected Report Date	01/29/2020
Earnings ESP	-1.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	528 E	532 E	468 E	490 E	2,048 E
2019	452 A	492 A	437 A	459 E	1,841 E
2018	425 A	437 A	393 A	412 A	1,667 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$4.96 E	\$5.46 E	\$2.81 E	\$4.05 E	\$17.19 E
2019	\$3.98 A	\$4.33 A	\$2.70 A	\$3.91 E	\$14.52 E
2018	\$3.42 A	\$3.10 A	\$0.94 A	\$2.56 A	\$10.00 A

*Quarterly figures may not add up to annual.

P/E TTM	13.0
P/E F1	10.2
PEG F1	0.3
P/S TTM	1.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

Overview

Allegiant Travel Company, based in Las Vegas, NV, was founded in 1997. The company, through its subsidiary Allegiant Air LLC, operates a low-cost passenger airline. It focuses on linking leisure travelers in small and medium sized cities to world-class leisure destinations.

The company which competes with the likes of Southwest Airlines, Spirit Airlines, American Airlines, Delta Air Lines, JetBlue Airlines and United Airlines, provides services on 405 routes across 99 origination cities and 23 leisure destinations, simultaneously covering 42 states and Puerto Rico.

Apart from air travel, the company offers vacation deals including car rentals and hotel bookings. Allegiant is making constant efforts to modernize its fleet. As of Dec 31, 2018, the company's fleet consisted of 44 A320 and 32 A319 aircraft. During the year, it retired 37 MD-80 aircraft.

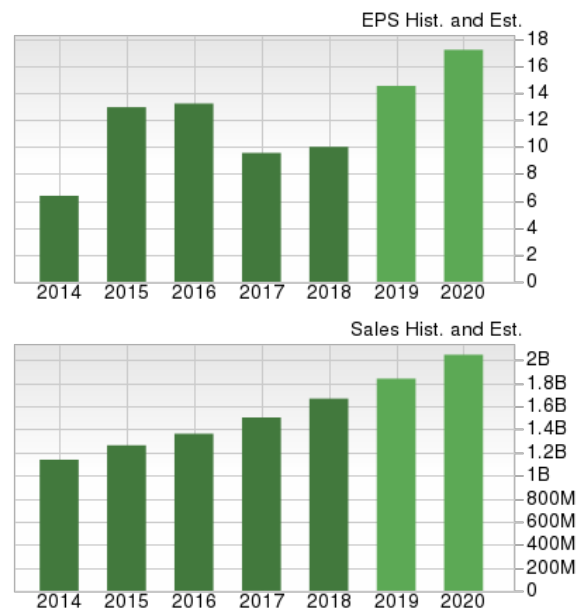
The company focusses on unbundling its air-related products and services like baggage fees, advance seat assignment among others. Allegiant, which also offers air transportation through fixed fee flight arrangements, focuses on generating significant additional ancillary revenues thanks to its unique business model.

By focusing on leisure travelers only, this unique business model enables the company to avoid heavy costs of serving a variety of customers. In order to reduce costs, Allegiant usually purchases used aircraft with useful remaining years. Additionally, this non-traditional approach also brings down distribution-related expenses.

The company also attracts customers by offering third party travel products like hotel rooms and ground transportation. The company also generates revenues by temporarily functioning as a lessor to acquire aircraft and/or engines. Unlike many other carriers, Allegiant does not offer connecting flights. It also does not have frequent flier agreements.

The company reported a 10.3% year over year increase in operating revenues to \$1,667.4 million in 2018. The uptick was driven by a 11.8% increase in passenger revenues. Passenger revenues accounted for 92% of the top line in 2018.

Revenues from third-party products and fixed fee contract contributed 3.5% and 3% respectively to the top line in 2018. Other sources of revenues accounted for the balance at Allegiant. Notably, the company's fiscal year coincides with the calendar year.



Reasons To Buy:

▲ Allegiant's results have been aided by strong passenger revenues over the last few quarters. On the back of surging demand for air travel, passenger revenues rose 11.8% in 2018. Continuing the trend, passenger revenues, which account for the bulk of the top line, increased 9.4% in the first nine months of 2019. Anticipating demand for air travel to remain strong, Allegiant issued bullish earnings per share projections for full-year 2019 and 2020. The carrier expects 2019 earnings per share to have been between \$14.25 and \$14.75. Further improvement is expected in 2020, with earnings per share expected in the \$16.5-\$19 band.

With demand likely to be consistently buoyant, passenger revenues, accounting for bulk of the top line, should aid the company's results going forward.

▲ We are impressed by the company's efforts to reward shareholders through share buybacks and dividend payments. Additionally, the company's performance on the punctuality front is impressive. As an evidence, on-time arrival increased four percentage points in 2018 from 2017 levels to 77%. Impressive performances on the punctuality front might enable the carrier to attract more traffic. Moreover, the current scenario of low fuel costs is a positive for the company. Evidently, average fuel cost per gallon (scheduled) declined 10% to \$2.17 in the September quarter. The company expects fuel cost per gallon to have been \$2.15 for full-year 2019. The measure is expected to decline further to \$2.12 per gallon in 2020.

▲ We are also impressed by the company's efforts to modernize its fleet. The carrier operates an all-Airbus fleet. Allegiant's fleet-size at the end of 2019 is expected to have been 93 (38 A319 and 55 A320), indicating an increase of 22.4% from the year-ago reported figure. The fleet size is expected to expand to 105 (38 A319 and 67 A320) by 2020-end. The transition to an all-Airbus fleet, completed in November 2018, increased Allegiant's fuel efficiency (the measure increased 3.6% year over year to 80 available seat miles per gallon in third-quarter 2019).

Reasons To Sell:

- ▼ Allegiant is a highly leveraged company. This is indicated by the fact that the ratio of its debt-to-equity (expressed as a percentage) is currently more than 100. This compares unfavorably to the industry's already high average. A high debt-to-equity ratio implies that the company is funding most of its ventures through borrowings.
- ▼ Woes related to capacity overexpansion pose a major challenge to the company. Evidently, load factor (% of seats filled by passengers) contracted 100 basis points to 84.4% in the first nine months of 2019 as capacity expansion (8.4%) outweighed traffic growth (7.2%). The company expects full-year 2019 scheduled and system capacity to have increased in the 8.5-8.9% range each.
- ▼ The company's high capital expenditures have the potential to hamper bottom-line growth over the long term. With the company investing heavily in fleet modernization, its capex is quite high. Allegiant expects capital expenditures (airline) for full-year 2019 to have been in the \$375-\$380 million range. Additionally, high labor costs have been affecting the company's bottom line for quite some time (for example, expenses on salary and benefits rose 9.1% in first nine months of 2019) and the situation is not likely to change going forward.

Allegiant's high debt levels and woes related to capacity overexpansion are quite concerning.

Last Earnings Report

Allegiant Beats on Q3 Earnings

The company's total earnings of of \$2.70 per share surpassed the Zacks Consensus Estimate of \$2.21. Moreover, the bottom line soared more than 100% year over year, driven by lower fuel costs and higher revenues. Total operating revenues grew 11% year over year to \$436.5 million on the back of a 10.2% rise in passenger revenues. Moreover, the top line surpassed the consensus mark of \$429.4 million.

Notably, quarterly earnings (airline operations) increased significantly to \$3.06 per share.

Quarter in Details

Air traffic (measured in revenue passenger miles: RPMs) for scheduled service in the quarter under review rose 6.1% and capacity (measured in available seat miles: ASMs) grew 5.8% year over year. Load factor (percentage of seats filled by passengers) was 86%, up 30 basis points, as capacity expansion was outweighed by traffic growth.

Airline operating cost per available seat miles (CASM) excluding fuel fell 5.6%. Average fuel cost per gallon (scheduled) declined 10% to \$2.17 in the quarter. Moreover, total scheduled service passenger revenue per available seat miles (TRASM) increased 4.3% to 11.1 cents.

In the quarter under review, Allegiant rewarded shareholders with dividends worth \$11 million and bought back shares worth \$14.7 million. Furthermore, the board of directors has cleared a dividend payout of 70 cents per share, which is payable on Dec 12, 2019, to shareholders of record as of Nov 22.

2019 Outlook

The company now expects scheduled and system ASMs to increase between 8.5% and 8.9% each (old guidance: 8-9%). The company now expects non-fuel unit costs (airline) to decline between 3.3% and 3.9% (earlier outlook had called for a decline in the 3-4% range).

The company still expects fuel cost per gallon of \$2.15. Additionally, the effective tax rate is anticipated between 23% and 24%. Allegiant now expects earnings per share of \$14.25-\$14.75 (earlier guidance: \$13.50-\$14.25) for 2019.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	1.66%
EPS Surprise	22.17%
Quarterly EPS	2.70
Annual EPS (TTM)	13.57

Recent News

November Traffic – Dec 11, 2019

Traffic for scheduled service, measured in revenue passenger miles (RPMs), inched up 1.6% on a year-over-year basis to 962.61 million. Scheduled capacity, calculated in available seat miles (ASMs), also increased 4.2% to 1.19 billion in November.

With traffic growth exceeding capacity expansion, load factor (percentage of seats filled with passengers) improved 210 basis points (bps) year over year to 80.4%. The number of departures for scheduled service climbed 6.5%. However, average stage length (average distance flown per aircraft departure) dipped 1.7% to 857 miles in the month.

Valuation

Allegiant shares are up 73.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Transportation sector are up 17.9% and 21.2% in the past year, respectively. The S&P 500 index is up 30.7% in a year's time.

The stock is currently trading at 11.88X forward 12-month price to earnings, which compares to 9.19X for the Zacks sub-industry, 13.05X for the Zacks sector and 19.07X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.24X and as low as 8.49X, with a 5-year median of 12.23X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$187 price target reflects 12.61X forward 12-month earnings.

The table below shows summary valuation data for ALGT

Valuation Multiples -ALGT					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.88	9.19	13.05	19.07
	5-Year High	20.24	12.3	17	19.34
	5-Year Low	8.49	6.85	10.46	15.17
	5-Year Median	12.23	9.08	13.13	17.44
EV/EBITDA TTM	Current	8.76	6.67	7.97	12.01
	5-Year High	13.41	7.36	11.13	12.86
	5-Year Low	4.58	4.31	6.06	8.49
	5-Year Median	7.4	6.06	7.43	10.66
P/S F12M	Current	1.56	0.73	1.13	3.46
	5-Year High	2.89	0.98	1.44	3.46
	5-Year Low	0.88	0.63	1.02	2.54
	5-Year Median	1.52	0.79	1.24	3

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Top 28% (72 out of 253)



Top Peers

American Airlines Group Inc. (AAL)	Neutral
Delta Air Lines, Inc. (DAL)	Neutral
Hawaiian Holdings, Inc. (HA)	Neutral
JetBlue Airways Corporation (JBLU)	Neutral
Southwest Airlines Co. (LUV)	Neutral
Spirit Airlines, Inc. (SAVE)	Neutral
SkyWest, Inc. (SKYW)	Neutral
United Airlines Holdings Inc (UAL)	Neutral

Industry Comparison Industry: Transportation - Airline				Industry Peers		
	ALGT Neutral	X Industry	S&P 500	JBLU Neutral	LUV Neutral	SAVE Neutral
VGM Score	A	-	-	A	B	C
Market Cap	2.87 B	5.15 B	23.76 B	5.45 B	28.86 B	2.78 B
# of Analysts	5	3.5	13	8	12	8
Dividend Yield	1.59%	0.00%	1.78%	0.00%	1.31%	0.00%
Value Score	B	-	-	A	B	A
Cash/Price	0.15	0.24	0.04	0.18	0.14	0.37
EV/EBITDA	9.56	6.41	13.97	8.23	6.38	9.96
PEG Ratio	0.33	0.69	2.02	0.48	1.28	NA
Price/Book (P/B)	3.47	1.28	3.38	1.14	2.97	1.28
Price/Cash Flow (P/CF)	9.77	5.80	13.70	5.89	8.48	5.70
P/E (F1)	10.04	9.67	18.83	8.01	11.27	8.25
Price/Sales (P/S)	1.60	0.68	2.68	0.68	1.29	0.75
Earnings Yield	9.76%	10.34%	5.30%	12.49%	8.88%	12.13%
Debt/Equity	1.47	0.89	0.72	0.43	0.36	1.32
Cash Flow (\$/share)	18.02	3.88	6.94	3.21	6.47	7.13
Growth Score	B	-	-	B	B	F
Hist. EPS Growth (3-5 yrs)	3.24%	3.40%	10.56%	5.01%	10.60%	3.40%
Proj. EPS Growth (F1/F0)	18.42%	12.62%	7.41%	23.09%	10.56%	1.36%
Curr. Cash Flow Growth	4.80%	4.80%	14.83%	-4.51%	9.35%	28.39%
Hist. Cash Flow Growth (3-5 yrs)	12.42%	9.94%	9.00%	15.59%	16.81%	18.42%
Current Ratio	0.96	0.68	1.23	0.53	0.65	1.33
Debt/Capital	59.48%	47.00%	42.92%	30.18%	26.52%	56.96%
Net Margin	11.85%	6.10%	11.08%	7.19%	10.90%	9.29%
Return on Equity	28.76%	15.38%	17.10%	12.03%	24.71%	17.52%
Sales/Assets	0.65	0.67	0.55	0.73	0.85	0.60
Proj. Sales Growth (F1/F0)	11.28%	4.90%	4.20%	7.50%	5.91%	14.90%
Momentum Score	A	-	-	D	D	C
Daily Price Chg	1.15%	0.91%	0.33%	0.91%	1.59%	0.84%
1 Week Price Chg	-1.17%	-0.01%	0.13%	-1.67%	-0.57%	-1.91%
4 Week Price Chg	3.84%	2.83%	3.31%	-1.31%	-1.24%	6.78%
12 Week Price Chg	17.89%	7.27%	9.70%	11.81%	2.18%	19.59%
52 Week Price Chg	73.57%	13.32%	30.28%	18.58%	20.24%	-24.67%
20 Day Average Volume	108,451	86,836	1,603,615	3,291,676	3,283,377	958,555
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.58%	0.00%	0.00%	-0.79%	-1.22%	0.38%
(F1) EPS Est 12 week change	11.61%	0.00%	-0.57%	4.08%	-4.36%	-2.12%
(Q1) EPS Est Mthly Chg	2.59%	0.00%	0.00%	-2.22%	-4.78%	4.95%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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